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**Contribution to Future Signals Intelligence Working Group Paper**

When Mikhail Gorbachev became General Secretary in 1985, he inherited an economy that was in the midst of a prolonged growth slump--GNP growth during 1976-85 was the lowest it had been in decades, while growth in industrial output had also plummeted. Moreover, the low growth in the Soviet Union was occurring in an economy that did not compare favorably in size or technological level with that of the US. Soviet GNP in 1985 was only slightly more than half that of the US. Even more striking, in terms of per capita consumption, the average US citizen was about three times as well off as his Soviet counterpart.

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In laying out his economic program, Gorbachev has focused his efforts squarely on increasing efficiency. Initially, Gorbachev has relied on a combination of measures to strengthen party discipline, improve worker attitudes and reduce alcohol abuse. Over the longer term, however, Gorbachev is counting on achieving productivity gains through a series of organizational changes, reform initiatives, and, most importantly, on extremely ambitious campaign to retool Soviet industries with new, more capable machinery.

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Because the machinery needed for industrial modernization is produced in the USSR in the machinery and metal working sector--which is also the primary source of production of military hardware and consumer durables--Gorbachev's plans for refurbishing the country's industrial base involves, of necessity,

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more heated competition for many of the resources involved in the production of weapons. Competition is already particularly intense for a whole range of materials, equipment, and skilled labor--resources traditionally supplied to the military on a priority basis. Moreover, over the next few years, competition between the civilian and military sectors promises to increase, as the defense industries begin to retool for production of the weapons that will be entering production in the 1990's. [ ]

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Given this struggle for resources, it is difficult to predict with any accuracy the outlook for a particular sector such as telecommunications. It does appear, though, that telecommunications--along with other "high-tech" sectors such as microelectronics, advanced machine tools, and computer-aided design and manufacture--will be given high priority in resource allocation because Gorbachev has singled out these fields as playing a "revolutionary" role in transforming the civilian economy. The Five-Year Plan for 1986-90 calls for the volume of communications services to increase 26-28 percent, a figure that would probably be difficult to achieve without a sharp boost in investment in this sector. [ ]

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